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BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER
Chairman
WILLIAM A. MUNDELL
Commissioner
MIKE GLEASON
Commissioner
KRISTIN K. MAYES
Commissioner
BARRY WONG
Commissioner

Arizona Corporation Commission

DOCKETED

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IN THE MATTER OF THE APPLICATION
OF DUNCAN RURAL SERVICES FOR A
PURCHASED GAS ADJUSTOR CREDIT
AND A NEW PURCHASED GAS
ADJUSTOR METHODOLOGY

DOCKET NO. G-02528A-06-0474

DECISION NO. 68953ORDER

Open Meeting
September 19 and 20, 2006
Phoenix, Arizona

BY THE COMMISSION:

FINDINGS OF FACT

1. Duncan Rural Services ("Duncan") is engaged in providing natural gas service within portions of Arizona, pursuant to authority granted by the Arizona Corporation Commission ("Commission").

2. On July 21, 2006, Duncan filed for Commission approval of a purchased gas adjustor ("PGA") credit and a new PGA methodology.

3. In Duncan's recently completed general rate proceeding, the Commission considered Duncan's PGA mechanism, making a number of changes to the mechanism. One of these changes was an expansion of the band on the monthly PGA rate from the \$0.10 per therm per year band which had been in place for a number of years to a \$0.10 per therm per month band, while retaining the underlying PGA mechanism.

4. In this application, Duncan requests a change to the PGA mechanism such that Duncan is allowed to charge its purchased gas cost as its monthly PGA rate, rather than using the

1 current mechanical 12-month rolling average cost calculation, and that it be authorized to add or
2 subtract up to \$0.10 per therm to its purchased gas cost to reduce the PGA bank balance.

3 5. Staff recognizes Duncan's concerns regarding natural gas costs and their impact on
4 Duncan's financial circumstances and continues to be willing to work with Duncan to address
5 these issues. However, Staff believes that the appropriate forum to make fundamental changes to
6 the operation of the PGA mechanism is in a general rate proceeding and therefore Staff does not
7 recommend adoption of the new PGA methodology requested by Duncan. Further, even apart
8 from a general rate proceeding being the proper forum for considering such a change, Staff would
9 not support movement to a PGA mechanism that provides a local distribution company with the
10 discretion to change the PGA rate from month to month based simply on the company's judgment
11 of what the PGA rate should be each month.

12 6. Staff believes that calculation of a PGA rate according to a defined set of inputs and
13 parameters, resulting in a monthly PGA rate whose calculation can be mathematically verified, is
14 preferable to deferring to the company's judgment of what the PGA rate should be from month to
15 month. Such a change would represent a fundamental departure from a long history of the
16 Commission approving either the mechanism by which rates are set or the actual rates to be set.

17 7. Regarding Duncan's proposal for a PGA credit, Duncan cites its over-collection of
18 \$41,800 at the end of June 2006. Duncan requests that if the Commission does not adopt
19 Duncan's PGA methodology change discussed above, that the Commission allow Duncan to
20 change the monthly PGA rate up to plus or minus \$0.10 per therm each month based upon
21 Duncan's discretion, rather than relying on the 12-month rolling average calculation. Staff also
22 opposes this proposal, as it would again involve a transfer of ratemaking from a Commission-
23 approved mechanism to Duncan's discretion.

24 8. Projections provided to Staff by Duncan show that Duncan expects the PGA bank
25 balance over-collection to be reduced to approximately \$8,500 at the end of January 2007 before
26 gradually increasing into the summer of 2007.

27 9. Various market conditions, including the extent of hot weather remaining from the
28 summer of 2006, whether the winter of 2006-2007 is colder or warmer than average, whether the

1 current higher than normal natural gas storage inventories continue, and the potential impact of
2 hurricanes on Gulf of Mexico production, may significantly change the pricing dynamics in the
3 coming months, particularly as the United States moves into the traditional heating season.

4 10. Given these circumstances, Staff believes that a modest PGA credit of \$0.05 per
5 therm should be approved, effective beginning with Duncan's October 2006 billing cycle and
6 remaining in place until Duncan's PGA bank balance reaches zero. This credit would gradually
7 return the over-collected PGA bank balance while also likely retaining a sizable portion of the
8 balance as a cushion heading into the winter 2006-2007 heating season when natural gas prices
9 could spike. For an average residential customer using 93 therms in January, the proposed PGA
10 credit would reduce the customer's bill by \$4.65.

11 11. Staff has recommended approval of a PGA credit of \$0.05 per therm, effective with
12 Duncan's October 2006 billing cycle and remaining in place until Duncan's PGA bank balance
13 reaches zero.

14 12. Staff has further recommended that Duncan notify its customers of the PGA credit
15 as part of its customer communications in October 2006.

16 CONCLUSIONS OF LAW

17 1. Duncan is an Arizona public service corporation within the meaning of Article XV,
18 Section 2, of the Arizona Constitution.

19 2. The Commission has jurisdiction over Duncan and over the subject matter of the
20 application.

21 3. The Commission, having reviewed the application and Staff's Memorandum dated
22 September 5, 2006, concludes that it is in the public interest to approve a PGA credit of \$0.05 per
23 therm, effective with Duncan's October 2006 billing cycle and remaining in place until Duncan's
24 PGA bank balance reaches zero.

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ORDER

IT IS THEREFORE ORDERED that a PGA credit of \$0.05 per therm, effective with Duncan's October 2006 billing cycle and remaining in place until Duncan's PGA bank balance reaches zero, be and hereby is approved.

IT IS FURTHER ORDERED that Duncan notify its customers of the PGA credit as part of its customer communications in October 2006.

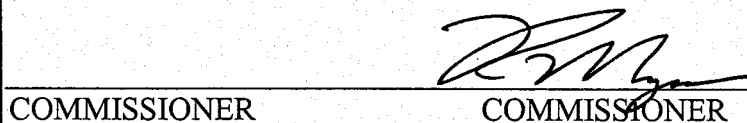
IT IS FURTHER ORDERED that Duncan's proposed PGA methodologies are denied.

IT IS FURTHER ORDERED that this Order shall become effective immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION


CHAIRMAN

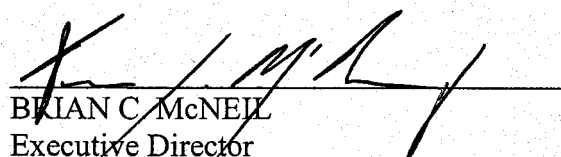

COMMISSIONER


COMMISSIONER


COMMISSIONER


COMMISSIONER

IN WITNESS WHEREOF, I BRIAN C. McNEIL, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this 21st day of September, 2006.


BRIAN C. McNEIL
Executive Director

DISSENT: _____

DISSENT: _____

EGJ:RGG:lhmm\CH

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